

Message Text

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 2651

LIMITED OFFICIAL USE SECTION 1 OF 2 KINGSTON 4272/1

E.O. 11652: N/A

TAGS: EMIN, JM

SUBJECT: IMPACT ON FOREIGN INVESTMENT POLICIES ON BAUXITE/
ALUMINA INDUSTRY

REF: STATE 220706

1. SUMMARY: AS OF SEPTEMBER 30, THE JURY IS OUT ON THE FUTURE OF THE ALUMINA/BAUXITE INDUSTRY IN JAMAICA. THERE ARE ENCOURAGING SIGNS AS EVIDENCED BY THE ACTIVE NEGOTIATIONS TAKING PLACE BETWEEN KAISER, ALCAN, ALCOA AND REYNOLDS WITH THE GOJ, BUT THE BASIC INVESTMENT CLIMATE IS AS UNCERTAIN AS EVER. UNTIL THE CONCLUSION OF THE CURRENT ROUND OF NEGOTIATIONS, AND PROBABLY NOT UNTIL AFTER THE HOLDING OF GERAL ELECTIONS LATER THIS YEAR OR IN EARLY 1977, WILL WE BE IN A POSITION TO MAKE A FIRM ASSESSMENT OF THE BAUXITE INVESTMENT CLIMATE. NOTWITHSTANDING THIS CURRENT CONFUSION THERE ARE A NUMBER OF FACTORS WHICH BEAR ON THE SITUATION AND WHICH WOULD BE OF USE IN THE CURRENT INTERAGENCY STUDY. THESE FACTORS ARE COVERED BELOW. END SUMMARY.

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2. THE BAUXITE LEVEY: IN JUNE 1974 THE GOVERNMENT OF JAMAICA ENACTED THE BAUXITE PRODUCTION LEVY ACT INCREASING SIXFOLD THE RATE OF TAXATION ON JAMAICAN BAUXITE. THE LEVY WAS SET AT 7.5 PERCENT OF THE AVERAGE REALIZED PRICE IN U.S. CURRENCY OF A SHORT TON OF PRIMARY ALUMINUM. IN JANUARY 1975 THE LEVY WAS INCREASED TO 8 PERCENT WHERE IT HAS STAYED SINCE. THERE ARE NO INDICATIONS THAT THE LEVY WILL BE INCREASED IN THE FORESEEABLE FUTURE. CERTAINLY THE MOST COMPELLING REASON FOR THIS IS THE CURRENT SLUMP IN PRODUCTION CAUSED BY INDIGENOUS AND INTERNATIONAL ECONOMIC FACTORS. BAUXITE AND ALUMINA PRODUCTION OVER THE LAST TWO YEARS HAS BEEN AS FOLLOWS:

BAUXITE/ALUMINA PRODUCTION (LONG TONS)

	BAUXITE	ALUMINA
1974	7,873,493	2,771,647
1975	5,396,090	2,337,270
1976	2,823,393	674,653

(6 MONTHS)

3. CURRENT NEGOTIATIONS- NEGOTIATIONS BETWEEN THE MAJOR PRODUCERS (KAISER, ALCOA, ALCAN AND REYNOLDS) AND THE GOJ HAVE BEEN ENCOURAGING. ALL CORPORATIONS ARE SATISFIED WITH THE STATE OF NEGOTIATIONS AND ALCOA, ALCAN AND KAISER ARE EXPECTED TO REACH AGREEMENT WITH THE GOJ WITHIN THE NEXT TWO MONTHS. IT IS EXPECTED THAT THE AGREEMENTS WILL EMBODY SOME OR ALL OF THE FOLLOWING PROVISIONS.

- A. THE JAMAICAN GOVERNMENT WOULD AGREE TO A FIXED LEVY FOR A SIGNIFICANT PERIOD. (7 PERCENT FOR 8 YEARS HAS BEEN ONE FIGURE USED).
- B. A MECHANISM WOULD BE INCLUDED ALLOWING THE GOJ TO INVEST IN ALUMINA PRODUCTION EITHER DIRECTLY OR BY FINANCING EXPANSION. THE GOJ WILL PROBABLY REQUIRE THAT THIS MECHANISM EVENTUALLY ALLOW MAJORITY JAMAICAN OWNERSHIP.
- C. ONE BUSINESS SOURCE HAS INDICATED TO US THAT THE GOJ IS NO LONGER PUSHING FOR LIMITED OFFICIAL USE

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INCLUSION OF MINIMUM PRODUCTION AGREEMENTS. HOWEVER, THIS HAS BEEN A SIGNIFICANT THEME IN THE PAST AND IT WOULD NOT BE SURPRISING TO SEE SOME FORM OF IT IN THE CURRENT AGREEMENTS.

- D. THE GOJ WILL INSIST ON A MECHANISM FOR RAPID ACQUISITION OF 51 PERCENT OWNERSHIP OF MINING FACILITIES.

E. IT IS EXPECTED THAT THERE WOULD BE A
NUMBER OF OTHER AGREEMENTS RELATING TO
HOUSING FOR EMPLOYEES, ETC.

F. THERE HAVE BEEN SOME INDICATION THAT
THE GOJ WOULD BE WILLING TO REDUCE ON A CASE-
BY CASE BASIS, BAUXITE LEVIES, AS AN INDUCE-
MENT TO NEW INVESTMENT.

4. ECONOMIC CLIMATE-JAMAICA'S OVERALL ECONOMIC
SITUATION IS POOR AND GETTING WORSE. NOT ONLY HAS
ALUMINA/BAUXITE PRODUCTION SLUMPED, BUT THE COUNTRY'S
OTHER MAIN SOURCES OF FOREIGN EXCHANGE HAVE ALSO
BEEN BADLY BATTERED IN THE LAST TWO YEARS. THE
EARNINGS OF SUGAR EXPORTS HAVE BEEN DIMINISHED BY THE
DROP IN WORLD PRICES, BANANA EXPORTS HAVE BEEN HURT
BY DROUGHT AND QUALITY PROBLEMS, AND TOURISM IS IN
SERIOUS DIFFICULTY AS A RESULT OF THE COUNTRY'S
INCREASINGLY NEGATIVE IMAGE. THESE PROBLEMS
CREATED AMBIVALENT PRESSURES ON THE BAUXITE
INDUSTRY. THE GOJ IS UNDER PRESSURE TO MAXIMIZE
THE PERCENTAGE RECEIVED UNDER THE BAUXITE LEVY
IN ORDER TO MEET BALANCE OF PAYMENTS REQUIREMENTS,
WHILE IT ALSO IS FACED WITH THE COMPELLING NEED
TO COME TO TERMS WITH THE ALUMINUM INDUSTRY IN
ORDER TO GET PRODUCTION BACK ON ITS FEET.

5. THE POLITICAL CLIMATE-THE POLITICAL CLIMATE OF
JAMAICA IS THE GREAT IMPONDERABLE WHICH MOST
DIRECTLY AFFECTS INVESTMENT. WE ARE NOW IN A PRE-
ELECTION PERIOD WHICH MOST OBSERVERS FEEL IS ONE OF
THE MOST IMPORTANT IN THE ISLAND'S HISTORY. THE
BUSINESS COMMUNITY IS TRYING TO LOOK BEHIND THE
RHETORIC IN AN ATTEMPT TO DETERMINE THE POLITICAL
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PERSUASION OF THE S"REAL MICHAEL MANLEY". THE
INVESTMENT CLIMATE IS DIRECTLY TIED TO THIS
GUESSING GAME AND, AT BEST, ITS CURRENT CONDITION
CAN BE DESCRIBED AS "UNCERTAIN". THERE IS EXTEN-
SIVE CAPITAL FLIGHT AND, TO THE BEST OF OUR KNOW-
LEDGE, THERE ARE NO PLANS BY ANY MAJOR FOREIGN

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CORPORATION TO INCREASE ITS INVESTMENT PROFILE. TO THE CONTRARY, THOSE CORPORATIONS WITH EXTENSIVE INVESTMENT EXPOSURE ARE MORE THAN GRATIFIED TO CONSIDER PROPOSALS OF THE GOJ TO GRADUALLY "BUY IN". FOR THE TIME BEING, ANYWAY, THE JAMAICAN POLITICAL SITUATION CONTROLS JAMAICA'S INVESTMENT CLIMATE.

6. DOING BUSINESS IN JAMAICA-THERE IS A BROADER FRAME OF REFERENCE WHICH THE BUSINESS COMMUNITY MUST CONSIDER BEFORE COMMITTING INVESTMENTS IN JAMAICA. THIS IS THE ACTUAL PRICE OF DOING BUSINESS. WAGES IN THE BAUXITE/ALUMINA INDUSTRY ARE HIGH. THE ALUMINUM COMPANIES HAVE JUST CONCLUDED NEGOTIATIONS FOR A 30-MONTH CONTRACT WHICH CALLS FOR A 47 PERCENT WAGE INCREASE. THIS FOLLOWS A 53-PERCENT INCREASE IN 1973. THE TOP OF THE SCALE UNSKILLED COMMON WORKER NOW EARNS JUST OVER \$5500 PER YEAR. HOWEVER, PRODUCTIVITY IS VERY LOW. THE REYNOLDS PLANT OUTSIDE OCHO RIOS IS THE EXACT DUPLICATE OF A PLANT IN THE UNITED STATES. YET IT

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TAKES OVER TWICE THE AMOUNT OF LABOR TO ACHIEVE THE SAME LEVEL OF PRODUCTION. AS A RESULT, THE PRICE OF LABOR PER UNIT OF ALUMINA PRODUCED IS

HIGHER IN JAMAICA THAN IN THE U.S. THE ALCOA
MANAGER HAS COMPLAINED THAT IT COSTS HIM \$30,000
TO CONSTRUCT COMPANY HOUSING UNITS IN AMAICA WHILE
THE SAME UNITS ARE BEING BUILT IN WEST VIRGINIA
FOR \$8,000.

6A. LABOR PROBLEMS HAVE ALSO BEEN A RECURRING
SOURCE OF AGGRAVATION TO THE INDUSTRY. NOTWITH-
STANDING HIGHLY FAVORABLE WAGE SCALES, THERE HAVE
BEEN NUMEROUS WALKOUTS AND SLOWDOWNS HAVING
SERIOUS EFFECTS ON PRODUCTIVITY. THE ALCOA PLANT,
FOR EXAMPLE, WAS CLOSED FOR SOME TIME BECAUSE OF
"POOR MANAGEMENT/LABOR RELATIONS" EVEN THOUGH THERE
WAS NO DISPUTE OVER WAGES OR WORKING CONDITIONS.
IT CAN BE EXPECTED THAT LABOR PROBLEMS OF THIS TYPE
WILL CONTINUE TO PLAGUE THE INDUSTRY.

7. CONCLUSION -AS NOTED ABOVE, THE JAMAICAN
POLITICAL AND EXONOMIC SITUATION IS IN A STATE OF
FLUX. UNVERTAINTY OF THIS TYPE IS ANATHEMA TO
POTENTIAL INVESTORS AND AS A CONSEQUENCE IT IS HIGHLY
UNLIKELY THAT ANY NEW FOREIGN INVESTMENTS WILL
BE MADE IN THE ALUMINA/BAUXITE INDUSTRY IN
JAMAICA FOR THE FORESEEABLE FUTURE. NEVERTHELESS,
AN EXPANSION OF PRODUCTIVE CAPACITY IS POSSIBLE
SINCE THE GOJ WILL HAVE THE OPTION OF "BUYING INTO"
EXISTING CORPORATIONS THOROUGH THE FINANCING OF
EXPANSION. FOR THE MAJORITY OF THE ALUMINUM
COMPANIES, THE OBJECTIVE IN JAMAICA WILL BE TO
CONTINUE TO SEEK ASSURANCES OF A SUPPLY OF BAUXITE/
ALUMINA WHILE KEEPING INVESTMENT VULNERABILITY TO A
MINIMUM.
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